Canada Council for the Arts | Conseil des arts du Canada

Quarterly

Financial Report

Unaudited

Period ended September 30, 2013
Published November 30, 2013

Bringing the arts to life
De l'art plein la vie

Canada Council for the Arts | Conseil des arts du Canada

Management Discussion and Analysis

Quarterly Report

Period ended September 30, 2013
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Bringing the arts to life
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INTRODUCTION

This narrative discussion relates to the financial results of the Canada Council for the Arts (the Council) for the six-month period ended September 30, 2013 as set out in the accompanying unaudited quarterly financial statements. These statements are disclosed in accordance with the requirements of section 131.1 of the Financial Administration Act and are prepared in accordance with Public Sector Accounting Standards (PSAS) issued by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants.

Management is responsible for the information presented in the unaudited quarterly financial statements and in this narrative discussion, both of which have been reviewed and endorsed by the Audit and Finance Committee of the Council's Board of Directors. In assessing what information is to be provided in the narrative discussion, management applies the materiality principle as guidance for disclosure. Management considers information material if it is probable that its omission or misstatement, judged in the surrounding circumstances, would influence the decisions of the primary user of this information, the Government of Canada.

This discussion contains "forward-looking statements" that reflect management's expectations regarding the Council's results of operations. These statements are not facts but only estimates based upon information and assumptions that are currently available to, or made by, management and which are subject to a number of risks and uncertainties. These and other factors may cause actual results to differ substantially from the expectations stated or implied in the forward-looking statements.

The Financial Administration Act does not require the Council to file a corporate plan with the Government of Canada. Therefore, neither this narrative discussion nor the unaudited quarterly financial statements disclose a comparison of results against the Council's Corporate Plan. As required by PSAS, the unaudited quarterly financial statements do provide comparisons with the Council's approved annual budget for the year.

HIGHLIGHTS

The Council was recognized with two awards: an Excellence in Governance Award from the Canadian Society of Corporate Secretaries (CSCS) in the category of "Best shareholder or stakeholder engagement by a governance team" and a Silver W3 Award in the category of Best Cultural Institution Website.

The Canadian Commission for UNESCO, in partnership with the University of Toronto, announced the inclusion of the "Discovery of Insulin Collection" into the International Memory of the World Register.

The renewed Entente de collaboration pour le développement des arts et de la culture des communautés francophones en situation minoritaire du Canada (2013-2018) (Collaboration Agreement for the Development of Arts and Culture in the Francophone Minority Communities of Canada for 2013–2018) was signed by all partners, including the Department of Canadian Heritage, the Fédération culturelle canadienne-française, the National Arts Centre, Radio-Canada, the National Film Board, Telefilm and the Canada Council.

For the third year in a row, the Canada Council Art Bank opened its doors as part of Culture Days. Over 1550 people have visited the Art Bank since 2011 as part of Culture Days.

The new Dance Mapping site was launched at the end of September and provides all of the completed research reports and a groundbreaking interactive map showing dance activity across the country.

Net Results

	Three months ended September 30				Six months ended September 30			
(in thousands of dollars)	2013	2012	$ change	% change	2013	2012	$ change	% change
Revenue	424	1,538	(1,114)	-72%	1,441	2,711	(1,270)	-47%
Expenses	(61,417)	(23,773)	(37,644)	-158%	(138,973)	(135,566)	(3,407)	-3%
Government funding	47,000	47,127	(127)	-0%	125,000	125,127	(127)	-0%
Net results for the period	**(13,993)**	**24,892**	**(38,885)**	-156%	**(12,532)**	**(7,728)**	**(4,804)**	62%

Overview of the Second Quarter Net Results

Net results for the quarter were ($14.0)M, a decrease of $38.9M over the second quarter of the previous fiscal year. This decrease reflects the following changes in revenue and expenses which are also explained in more detail in the Financial Results section:

- Revenue for the second quarter was $1.1M lower compared to last year. This decrease is mainly due to a realized gain on derivatives of $1.4M for this period last year. Other revenues were consistent with the prior year.
- Expenses in the quarter were higher than comparative period last year which is mostly due to timing in grant expenses. For the cumulative six month period, the grant expenses are comparable.

The Council will continue to monitor its financial results and it is anticipated that it will be aligned with the budget approved by the Board.

IMPORTANT CHANGES

Programs

The Council is continuing its review of of programs that provide operating funding to organizations and the Flying Squad program. The results of the revised Multi-year Grants to Organizations (Theatre) were released in July 2013, while consultations took place on the programs in Inter-Arts and Music. A new program entitled Leadership for Change was launched in fall 2013, replacing the suspended Flying Squad program.

In July 2013, the Council announced a three-year partnership with the Government of Nunavut to increase support for artists from the Territory to travel.

Operational Activities

- Systems Modernization

The Council is currently undergoing significant changes to its suite of information systems, with a new Grant and Contact Management System currently being developed and implemented.

- Move to 150 Elgin

The Council's move to a new, cost-efficient, green building is proceeding according to schedule. The Council will move in December 2013.

Leadership and Governance

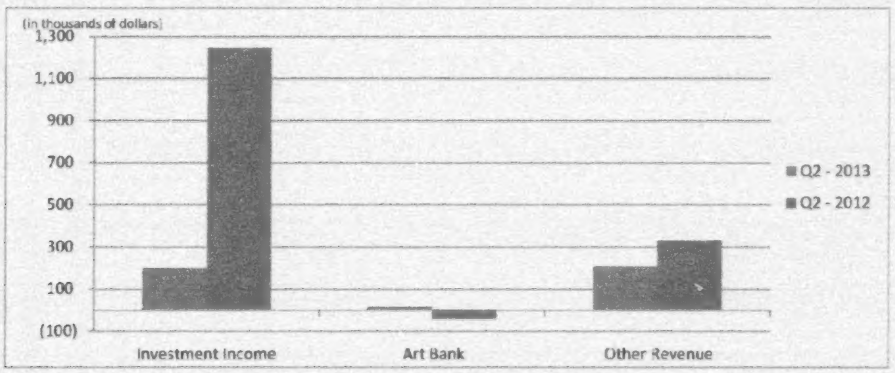
The Minister of Canadian Heritage and Official Languages announced the appointment of Ms. Isabelle Hudon to the Board of the Council on October 1, 2013. Ms. Hudon's biography can be found on the Council's website.

Roger Gaudet, former Head of Theatre, has been named Director of the Arts Disciplines Division after a competitive process. The new Head of Theatre is Ms. Guylaine Normandin.

FINANCIAL RESULTS

The following section provides further detail and explanation of financial results presented in the quarterly financial statements:

Revenue



Investment Income

- During last year's second quarter, the Canadian currency performed well compared to other currencies. The Council recorded a $1.4M gain through its derivatives forward contracts. At the end of the 2013 fiscal year, the Council decided to no longer use derivatives to manage its foreign currency exchange risk as most of its current investment managers already have a currency strategy within their pooled fund to manage this risk.

  The investment income is anticipated to be aligned with budget by end of the year. The majority of the distribution is expected in December 2013.

Art Bank

- No major variances were noted.

Other Revenue

- No major variances were noted.

Expenses

(in thousands of dollars)	Three months ended September 30				Six months ended September 30			
	2013	2012	$ change	% change	2013	2012	$ change	% change
Grants	52,448	15,085	37,363	248%	120,970	118,341	2,629	2%
Program delivery costs	4,315	4,017	298	7%	8,920	8,408	512	6%
Canadian Commission for UNESCO	441	392	49	13%	1,103	908	195	21%
General administration	4,213	4,279	(66)	-2%	7,980	7,909	71	1%
Net results for the period	**61,417**	**23,773**	**37,644**	158%	**138,973**	**135,566**	**3,407**	3%

Grant expenses are higher than the same period last year due to the timing of competition deadlines and approval of results by the Board which differ from the prior year. For the cumulative six month period the grant expenses are comparable to previous year.

No other major variances were noted in the expenses.

Grants and other expenses are forecasted to be aligned with the budget.

Financial Assets

(in thousands of dollars)	September 30	March 31	
	2013	2013	$ change
Cash and Cash equivalents	30,622	197	30,425
Accounts receivable	1,575	3,488	(1,913)
Derivatives		5	(5)
Portfolio investments	297,767	285,141	12,626
Total	**329,964**	**288,831**	**41,133**

Cash and Cash Equivalents

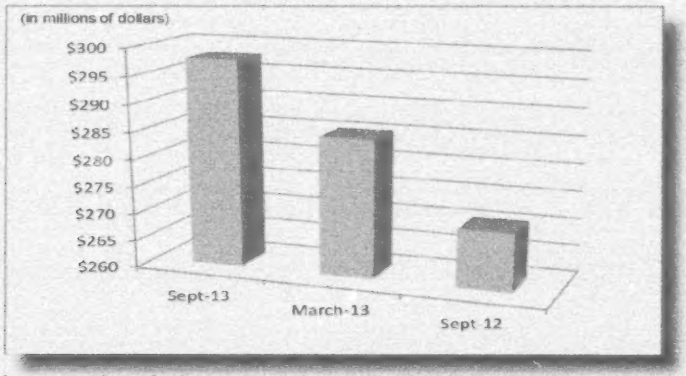
The increase of $30.4M in Cash Equivalents compared to year-end is primarily the result of the difference in the timing of the drawing down of Council's Parliamentary appropriation and the cash flow requirements of grant payments. This increase is also consistent with the increase in Grants payable under the Liabilities section as of September 30, 2013.

Accounts Receivable

The decrease of $1.9M arises primarily from the receipt in the first quarter of $1.6M in investment income which was accrued at year-end.

Portfolio Investments

The total market value of the portfolio as at September 30, 2013 was $297.8M of which $79.7M was externally restricted. This represents an increase of $12.6M since March 31, 2013 and $21.4M since September 30, 2012 as a result of positive returns.



The total fund generated an absolute return of 3.8% for the quarter which was higher than the benchmark return by 0.8%. The main contributors to the returns for that period were the performance of the Global and Canadian Equity managers. Both Canadian and Global equity asset classes generated a return between 7-8% which was higher then their benchmark by approximately 1.5%.

Since January 1st, 2013, the total fund generated an absolute return of 9.7% which was higher than the benchmark return by 2.1%. The main contributor for this year-to-date return were the performance of the Global Equity managers which posted a 20.5% return.

Liabilities

(in thousands of dollars)	September 30 2013	March 31 2013	$ change
Bank indebtedness	1,182	1,347	(165)
Grants payable	57,504	26,984	30,520
Accounts payable and accrued liabilities	1,595	3,513	(1,918)
Deferred revenues	1,530	1,764	(234)
Deferred Parliamentary appropriations	14,000	-	14,000
Derivatives	-	97	(97)
Employee future benefits	2,572	2,515	57
Externally restricted contributions	30,318	27,721	2,597
Total	**108,701**	**63,941**	**44,760**

Grants payable
The increase of $30.5M in comparison to the value as at March 31, 2013 arises mostly from multi-year grants accrued at the start of the year which had not been paid by the end of the six month period.

Accounts payable and accrued liabilities
The decrease of $1.9M in comparison to the value as at March 31, 2013 is mainly due to a reduction of $2.0M in commercial invoices due to the timing of the payment schedule.

Deferred Parliamentary appropriations
The increase of $14.0M in comparison to the value as at March 31, 2013 is due to the October 2013 Parliamentary appropriation of $14.0M which was received before the end of the second quarter.

Derivatives
The Council does not use derivatives to manage its exposure to foreign currency exchange risk on the non-Canadian dollar denominated portion of its investment portfolio as most of its current investment managers already have a currency strategy within their pooled fund to manage this risk. The last foreign currency forward contracts held by the Council settled in June 2013, which explains the nil value under derivatives both in the assets and liabilities sections at September 30, 2013.

Non-Financial Assets

(in thousands of dollars)	September 30 2013	March 31 2013	$ change
Tangible capital assets	2,335	2,339	(4)
Art Bank Inventory	19,356	19,356	-
Musical Instruments	1	1	-
Prepaid expenses	759	306	453
Total	**22,451**	**22,002**	**449**

Art Bank Inventory
The Council owns approximately 17,500 works of contemporary Canadian art within its Art Bank collection. At September 30, 2013 the appraised value of the Art Bank inventory was approximately $71M. The Council insures its Art Bank inventory for its estimated appraised value.

Musical Instruments
The Council operates a Musical Instrument Bank and it currently owns a fine cello bow and eight quality musical instruments. In addition, the Council manages 11 instruments on loan, 9 of which are lent by anonymous donors. The appraised value of its musical instruments as at September 30, 2013 was $36.7M. These are included on the Statement of Financial Position at a nominal value. The Council insures the musical instruments at their appraised value.

Prepaid Expenses
The increase in prepaid expenses is related to the October 2013 rent which was paid at the end of the quarter.

Cash Flow

(in thousands of dollars)	Three months ended September 30				Six months ended September 30			
	2013	2012	$ change	% change	2013	2012	$ change	% change
Beginning of period	24,350	17,643	6,707	38%	(1,150)	(1,563)	413	(26%)
Cash (for) from operating activities	5,460	(2,568)	8,028	313%	30,833	17,161	13,672	80%
Cash for capital transactions	(277)	(282)	5	2%	(454)	(417)	(37)	(9%)
Cash (for) from investing activities	(93)	(1,069)	976	91%	211	(1,457)	1,668	114%
Net Change	5,090	(3,919)	9,009	230%	30,590	15,287	15,303	100%
Ending balance for the period	**29,440**	**13,724**	**15,716**	115%	**29,440**	**13,724**	**15,716**	115%

Operating Transactions

The change in cash from operations of $8.0M is driven by an increase of $47.6M mostly in grants payable and deferred Parliamentary appropriations which was partially offset by a decrease of $39.2M in the surplus for operations.

Capital Transactions

There was no major variance from the same period last year.

Investing Transactions

The major variance is explained by the purchase of units in the short term fund related to the realized gain of $1.1M on derivatives during this period last year.

RISK MANAGEMENT

Corporate Risk

In line with good governance practices, the Council updates and revises its Corporate Risk Profile on an ongoing basis, identifying and including any changes in the Council's risk environment. Effective risk mitigation strategies and action plans are developed, under the oversight of assigned members of executive management, to reduce exposure to an acceptable and manageable level.

The Audit and Finance Committee endorsed the Risk Mitigation Strategies Plan presented by Executive Management at its January 2013 meeting. Executive Management is currently monitoring progress of the implementation of these mitigation strategies and will be reporting results to the Audit and Finance Committee on a regular basis.

Financial Risk

The Council is exposed to a variety of financial risks mainly through its investment portfolio. The Council's investment portfolio is primarily exposed to price risk, interest rate risk and currency risk. The Investment Committee reviewed the Council's investment policy during the first quarter and recommended changes in the asset mix allocation which was approved by the Board. This policy sets out the long term investment objectives and guidelines under which the portfolio is to be invested. The new asset mix allocation is detailed in Note 3 to the unaudited quarterly financial statements.

USE OF PARLIAMENTARY APPROPRIATION

The following is intended to supplement the information provided elsewhere regarding the Council's use of its Parliamentary appropriation.

The Council receives its main funding through an appropriation voted by Parliament. The Council records the Parliamentary appropriation received in the period as revenue in the Statement of Operations. The Council submits a monthly cash flow analysis to the Department of Canadian Heritage to justify its monthly drawdown cash requirements. The cash-flow requirements may not necessarily match the timing of expenses reported in the Statement of Operations. The monthly drawdown is invested in a short-term pooled fund managed by a professional investment manager from which the Council draws its daily cash requirements.

The Parliamentary appropriation approved and received by the Council during the six month period was as follows:

(in thousands of dollars)	September 30	
	2013	2012
Approved annual operating funding		
Vote 10 - Operating costs	180,261	181,761
Parliamentary appropriations for operating expenses recorded		
in the Statement of Operations for the six month period	(125,000)	(125,127)
Balance of operating funding to be received	55,261	56,634

Canada Council for the Arts | Conseil des arts du Canada

Quarterly

Financial Statements

Unaudited

These financial statements for the quarter ended September 30, 2013 have not been audited or reviewed by our Auditor

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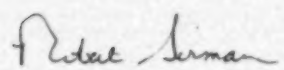
Management's Responsibility for Financial Reporting

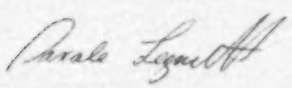
Management is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations and for such internal controls as management determines is necessary to enable the preparation of quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the quarterly financial statements.

Based on our knowledge, these unaudited quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at the date of and for the periods presented in the quarterly financial statements.

November 28, 2013



Robert Sirman
Director and Chief Executive Officer



Pascale Legault, CPA, CA
Chief Financial Officer

Statement of Financial Position

(Unaudited) (In thousands of dollars)	September 30 2013	March 31 2013
FINANCIAL ASSETS		
Cash equivalents	$ 30,622	$ 197
Accounts receivable	1,575	3,488
Derivatives	-	5
Portfolio investments (Note 3)	297,767	285,141
Total financial assets	329,964	288,831
LIABILITIES		
Bank indebtedness	1,182	1,347
Grants payable	57,504	26,984
Accounts payable and accrued liabilities	1,595	3,513
Deferred revenues	1,530	1,764
Deferred Parliamentary appropriations	14,000	-
Derivatives	-	97
Employee future benefits	2,572	2,515
Deferred revenues - Externally restricted contributions (Note 5)	30,318	27,721
Total liabilities	108,701	63,941
NET FINANCIAL ASSETS	221,263	224,890
NON-FINANCIAL ASSETS		
Tangible capital assets	2,335	2,339
Art Bank inventory	19,356	19,356
Musical instruments	1	1
Prepaid expenses	759	306
Total non-financial assets	22,451	22,002
ACCUMULATED SURPLUS (Note 6)	$ 243,714	$ 246,892
Accumulated surplus is comprised of:		
Accumulated surplus from operations	225,465	237,997
Accumulated remeasurement gains	18,249	8,895
ACCUMULATED SURPLUS	$ 243,714	$ 246,892

The accompanying notes and schedules form an integral part of this financial statements.

Statement of Operations

(Unaudited)

(in thousands of dollars)

	Yearly Budget	Three months ended September 30		Six months ended September 30	
	2013	2013	2012	2013	2012
Revenue					
Net investment income (Note 7)	$ 9,560	$ 201	$ 1,247	$ 950	$ 1,856
Net Art Bank income (loss) (Note 8)	(244)	16	(40)	-	(39)
Other revenue	1,586	207	331	491	894
Total revenue	10,902	424	1,538	1,441	2,711
Expenses					
Programs					
Grants	157,960	52,448	15,085	120,970	118,141
Administration	14,635	3,463	3,176	6,856	6,204
Services	6,555	852	841	2,064	2,204
	173,550	56,763	19,102	129,890	126,749
Canadian Commission for UNESCO (Note 9)	2,346	441	392	1,103	908
General administration	15,646	4,213	4,279	7,980	7,909
Total expenses	191,542	61,417	23,773	138,973	135,566
Annual deficit from operations before Parliamentary appropriations	(180,640)	(60,993)	(22,235)	(137,532)	(132,855)
Parliamentary appropriations	180,861	47,000	47,127	125,000	125,127
SURPLUS (DEFICIT) FROM OPERATIONS FOR THE PERIOD	21	(13,993)	24,892	(12,532)	(7,728)
ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF PERIOD	237,997	239,458	180,039	237,997	212,659
ACCUMULATED SURPLUS FROM OPERATIONS, END OF PERIOD	$ 238,018	$ 225,465	$ 204,931	$ 225,465	$ 204,931

Statement of Change in Net Financial Assets

(Unaudited)

(in thousands of dollars)

	Three months ended September 30		Six months ended September 30	
	2013	2012	2013	2012
SURPLUS (DEFICIT) FROM OPERATIONS FOR THE PERIOD	$ (13,993)	$ 24,892	$ (12,532)	$ (7,728)
Acquisition of tangible capital assets	(277)	(282)	(454)	(417)
Amortization of tangible capital assets	228	244	458	488
	(49)	(38)	4	71
Acquisition of prepaid expenses	(759)	(285)	(1,050)	(553)
Use of prepaid expenses	291	268	597	541
	(468)	(17)	(453)	(12)
Net remeasurement gains	7,418	5,315	9,354	3,050
INCREASE (DECREASE) IN NET FINANCIAL ASSETS	(7,092)	30,152	(3,627)	(4,619)
NET FINANCIAL ASSETS, BEGINNING OF PERIOD	228,355	175,313	224,890	210,084
NET FINANCIAL ASSETS, END OF PERIOD	$ 221,263	$ 205,465	$ 221,263	$ 205,465

The accompanying notes and schedules form an integral part of the financial statements

Statement of Remeasurement Gains and Losses

(Unaudited)	Three months ended September 30		Six months ended September 30	
(in thousands of dollars)	2013	2012	2013	2012
ACCUMULATED REMEASUREMENT GAINS (LOSSES), BEGINNING OF PERIOD	$ 10,831	$ (2,410)	$ 8,895	$ (145)
Unrealized gains (losses) attributable to:				
Derivatives	-	(101)	-	43
Portfolio investments	7,418	5,560	9,426	3,194
Amounts reclassified to the Statement of Operations				
Derivatives	-	(144)	40	(248)
Portfolio investments	-	-	(112)	61
NET MEASUREMENT GAINS FOR THE PERIOD	7,418	5,315	9,354	3,050
ACCUMULATED REMEASUREMENT GAINS, END OF PERIOD	$ 18,249	$ 2,905	$ 18,249	$ 2,905

Statement of Cash Flow

(Unaudited)	Three months ended September 30		Six months ended September 30	
(in thousands of dollars)	2013	2012	2013	2012
Operating Transactions				
Surplus (deficit) from operations for the period	$ (13,993)	$ 24,892	$ (12,532)	$ (7,728)
(Gains) losses from disposal of portfolio investments (Note 7)			(149)	82
Realized losses on change in derivatives fair value	-	(198)	(37)	(342)
Amortization of tangible capital assets	228	244	458	488
Increase in prepaid expenses	(466)	(17)	(453)	(12)
Increase (Decrease) in employee future benefits	30	(18)	57	-
Income transferred from Deferred revenues - Externally restricted contributions				
To investment income (Note 5)	(228)	230	(792)	(638)
To other revenues (Note 5)	-	-	-	(363)
Net change in other non-cash items (Note 10)	19,891	(27,701)	44,281	25,674
Cash provided (used) by operating activities	5,460	(2,568)	30,833	17,161
Capital Transactions				
Cash used to acquire tangible capital assets	(277)	(282)	(454)	(417)
Investing Transactions				
Acquisition of portfolio investments	(93)	(1,297)	(27,077)	(3,437)
Disposal of portfolio investments	-	228	27,888	1,980
Cash provided (used) by investing activities	(93)	(1,069)	211	(1,457)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,090	(3,919)	30,590	15,287
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	24,350	17,643	(1,150)	(1,563)
CASH AND CASH EQUIVALENTS, END OF PERIOD	29,440	13,724	29,440	13,724
Represented by:				
Cash equivalents	30,622	14,127	30,622	14,127
Bank indebtedness	(1,182)	(403)	(1,182)	(403)
	$ 29,440	$ 13,724	$ 29,440	$ 13,724

The accompanying notes and schedules form an integral part of the financial statements.

Notes to the Financial Statements
for the period ended September 30, 2013

(Unaudited)

1. AUTHORITY AND ACTIVITIES

The Canada Council for the Arts (the "Council"), established by the Canada Council Act in 1957 and subsequently amended in 2001 by Bill C-40 to the Canada Council for the Arts Act, is not an agent of Her Majesty and is deemed to be a registered charity for the purposes of the Income Tax Act. In accordance with section 85(1.1) of the Financial Administration Act, the Council is exempt from Divisions I to IV of Part X of this Act, except for subsection 105(2) and sections 113.1 and 119 of Division II, sections 131 to 148 of Division III and section 154.01 of Division IV. The Council is a Crown corporation whose objectives are to foster and promote the study and enjoyment of and the production of works in the arts.

The Council achieves its objectives primarily through grant programs to professional Canadian artists and arts organizations. The Council incurs administration and services expenses in the delivery of programs. Program administration expenses represent the direct costs of program delivery. Program services expenses represent costs incurred for non-grant activities in fulfilment of the Council's mandate and costs associated with the adjudication of grants. General administration costs represent the costs related to corporate management, communications, human resources, information management, finance, accommodation and amortization.

The Canada Council for the Arts Act assigns the Council with the functions and duties for the Canadian Commission for UNESCO (the "Commission"). The Commission advises the Government of Canada on its relations with the United Nations Educational, Scientific and Cultural Organization (UNESCO). The Commission also fosters co-operation between Canadian organizations in civil society and UNESCO.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting
These unaudited interim financial statements have been prepared in accordance with Public Sector Accounting Standards (PSAS) pursuant to the Standard on Quarterly Financial Reports for Crown Corporations issued by the Treasury Board.

Basis of preparation
These interim financial statements are intended to provide an update on the latest complete set of audited annual financial statements for the year ended March 31, 2013. Accordingly, they should be read in conjunction with the audited annual financial statements. The interim financial statements are unaudited for all periods presented. The accounting policies used in the preparation of these interim condensed financial statements are consistent with those disclosed in the Council's last audited annual financial statements.

Measurement uncertainty
The preparation of financial statements in accordance with Canadian PSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the financial statement date and the reported amounts of revenues and expenses during the reporting period. Employee-related liabilities, the estimated useful lives of tangible capital assets and the Art Bank inventory, the residual and appraised value of the Art Bank inventory, and the fair value of financial instruments are the most significant items where estimates are used. Actual results could differ from those estimated.

Budgeted figures
Budgeted figures have been provided for comparison purposes and have been derived from the estimates approved by the Board.

3. PORTFOLIO INVESTMENTS

	Year-to-date September 30, 2013					Year-end March 31, 2013		
(in thousands of dollars)	Cost	Unrealized losses	Unrealized gains	Fair value		Cost	Fair value	
	$	$	$	$	%	$	$	%
Canada Council Endowment and Special Funds								
Pooled funds								
Equity	107,951	-	20,186	123,137	52.0	102,951	112,026	49.4
Fixed income	62,323	2,511	-	59,812	25.2	73,316	72,049	31.7
Alternatives	19,430	-	3,473	22,903	9.7	10,670	13,491	6.0
Money market	14,865		11	14,876	6.3	13,266	13,266	5.8
Real estate	8,516	-	1,179	9,695	4.1	8,336	9,349	4.1
Infrastructure	8,759	2,210	-	6,549	2.7	8,464	6,828	3.0
	216,844	4,721	24,849	236,972	100.0	217,003	227,009	100.0
Killam Fund								
Pooled funds								
Equity	26,311	-	5,160	31,471	51.8	26,312	28,631	49.3
Fixed income	15,817	652	-	15,165	24.9	18,607	18,268	31.4
Alternatives	4,998	-	886	5,884	9.7	2,718	3,436	5.9
Money market	3,693	-	3	3,696	6.1	3,198	3,198	5.5
Real estate	2,280	-	329	2,609	4.3	2,235	2,519	4.3
Infrastructure	2,648	678	-	1,970	3.2	2,580	2,080	3.6
	55,747	1,330	6,378	60,795	100.0	55,650	58,132	100.0
Total investments	272,591	6,051	31,227	297,767		272,653	285,141	

Unrealized gains/losses on investments are primarily due to the timing of the market prices, foreign exchange movements, or the early years in the business cycle for some investments. Annually, the Council assesses each of its investment instruments against specific criteria to determine whether there is objective evidence that the adjusted cost may not be recovered and is therefore impaired. The Council does not consider these investments to be other-than-temporarily impaired.

The Council manages two separate portfolios, the Canada Council Endowment and Special Funds and the Killam Fund. The Killam will requested that their donation be invested separately. Apart from the Killam Fund, all other externally restricted contributions are consolidated into the Canada Council Endowment and Special Funds and represent 8.0% (March 31, 2013 - 8.0%) of that Fund with a total fair value of $18,934,000 (March 31, 2013 - $18,138,000). The total fair value of the externally restricted investment including the Killam Fund is $79,730,000 (March 31, 2013 - $76,270,000).

The long-term objectives of the Canada Council Endowment and Special Funds and the Killam Fund are to generate long-term real returns to supplement the costs of administering the various programs, while maintaining the purchasing power of the endowed capital.

The Council invests in units of equity, fixed income and alternative pooled funds and in limited partnership units of four real estate funds and two infrastructure funds. The permitted and prohibited investments, the asset mix as well as some maximum holding quantity restrictions are governed by a Board-approved investment policy to mitigate concentration risk. All of the investments are managed by professional investment managers.

The Council manages its portfolio to the following benchmarks adopted by the Board in June 2013. The benchmarks allow asset class allocations to vary between a minimum and a maximum.

Asset Classes	Actual Market Value	Minimum	Benchmark	Maximum
Canadian equities	10%	5%	10%	15%
Global equities	42%	35%	40%	45%
Fixed income	25%	15%	25%	30%
Alternatives	10%	5%	10%	15%
Real estate	4%	0%	7.5%	10%
Infrastructure	3%	0%	7.5%	10%
Money market	6%	0%	0%	15%

The money market asset class includes short term pooled funds used for future investments in alternatives and capital commitments in limited partnership units of real estate and infrastructure funds. These funds had a balance of $18,572,000 (March 31, 2013 - $16,464,000).

Investments in the equity pooled funds are comprised of units of three pooled funds, one Canadian fund and two funds that are invested in the global equity markets. The Canadian equities are measured against the returns of the Standard and Poor's Toronto Stock exchange Index. The global equities are measured against the returns of the Morgan Stanley Capital International World Hedge Index. Investments in the fixed income pooled fund are comprised of Canadian Government and corporate bonds with a minimum credit quality of BBB or equivalent rated by a recognized bond rating agency. The fixed income fund is intended to replicate the returns of the DEX Universe Bond Index. Investments in the alternative pooled funds are comprised of units of one hedge fund with diversified positions across global asset classes. This investment is measured against the returns of the Scotia Capital 91-day T-bill plus 20%. The assets included in the real estate funds are commercial real estate properties in Canada and the United States. These investments are measured against the returns of the Investment Property Databank for the Canadian managers and the National Council of Real Estate Investment Fiduciaries (NCREIF) for the US manager. The infrastructure funds include two portfolios of diversified infrastructure investments. These investments are measured against the Consumer Price Index plus 4.5%.

4. FINANCIAL RISKS AND FAIR VALUE

The measurement categories of the Council's financial instruments, as well as their carrying amounts and fair values are as follows:

(in thousands of dollars)		Year-to-date September 30, 2013	Year-end March 31, 2013
Financial assets and liabilities and classifications	Measurement categories	Carrying amount and fair value ($)	Carrying amount and fair value ($)
Cash equivalents	Fair value	30,622	197
Accounts receivable	Amortized cost	1,575	3,488
Derivatives net	Fair value	-	(92)
Portfolio investments[1]	Fair value	297,767	285,141
Bank indebtedness	Fair value	1,182	1,347
Grants payable	Amortized cost	57,504	26,984
Accounts payable and accrued liabilities	Amortized cost	1,595	3,513

1 The detailed fair value for the investments is listed in Note 3.

a) Establishing fair value

The carrying value of accounts receivable, grants payable and accounts payable and accrued liabilities approximates their fair values due to their short term maturity.

The fair value of derivative instruments is calculated using the current market spot and the forward exchange rates at the end of the period.

The fair values of the investments are determined as follows:

- Pooled fund investments are valued at the unit values supplied by the pooled fund managers, which represent the Council's proportionate share of the underlying net assets at fair values, determined using closing market prices.
- The Alternatives is a pooled fund investment which is valued at the unit values supplied by the pooled fund manager. The fund manager manages multiple funds strategies within the fund and determines the unit's fair value using the closing market prices for some strategies when available or using valuation model with non-observable data for other strategies.
- Real estate investment values are supplied by the fund managers using independently audited appraisals which are based on a valuation model with unobservable input. The independently audited appraisals are obtained annually.
- Infrastructure investment values are supplied by the fund managers using internally determined appraisals. The appraisals are based on a valuation model with unobservable input. The independently audited appraisals are obtained annually.

b) Fair value hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The following table presents the financial instruments recorded at fair value in the Statement of Financial Position, classified using the fair value hierarchy described above:

Financial assets at fair value

(in thousands of dollars)	Year-to-date September 30, 2013				Year-end March 31, 2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash equivalents	-	30,622	-	30,622	-	197	-	197
Derivatives	-	-	-	-	5	-	-	5
	-	30,622	-	30,622	5	197	-	202
Portfolio Investments								
Canada Council Endowment and Special Funds								
Pooled Funds								
Equity	-	123,137	-	123,137	-	112,026	-	112,026
Fixed Income	-	59,812	-	59,812	-	72,049	-	72,049
Alternatives	-	-	22,903	22,903	-	-	13,491	13,491
Money Market	-	14,876	-	14,876	-	13,266	-	13,266
Real Estate	-	-	9,695	9,695	-	-	9,349	9,349
Infrastructure	-	-	6,549	6,549	-	-	6,828	6,828
Killam Fund								
Pooled Funds								
Equity	-	31,471	-	31,471	-	28,631	-	28,631
Fixed Income	-	15,165	-	15,165	-	18,268	-	18,268
Alternatives	-	-	5,884	5,884	-	-	3,436	3,436
Money Market	-	3,696	-	3,696	-	3,198	-	3,198
Real Estate	-	-	2,609	2,609	-	-	2,519	2,519
Infrastructure	-	-	1,970	1,970	-	-	2,080	2,080
	-	248,157	49,610	297,767	-	247,438	37,703	285,141
Total	-	278,779	49,610	328,389	5	247,635	37,703	285,343

Financial liabilities at fair value

(in thousands of dollars)	Year-to-date September 30, 2013				Year-end March 31, 2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Bank indebtedness	1,182	-	-	1,182	1,347	-	-	1,347
Derivatives	-	-	-	-	97	-	-	97
Total	1,182	-	-	1,182	1,444	-	-	1,444

5. DEFERRED REVENUES - EXTERNALLY RESTRICTED CONTRIBUTIONS

The deferred revenues from externally restricted contributions consist of accumulated income received which has been deferred until the resources have been used for the purpose or purposes specified by the endowment. The restricted endowment principal of $37,569,000 is required to be maintained intact and is reported under accumulated surplus from operations (see Note 6).

(in thousands of dollars)	Year-to-date September 30, 2013	Year-end March 31, 2013
Balance, beginning of period	$ 27,721	$ 23,594
Transferred from (to) investment income (Note 7)		
Net investment income	12	3,696
Use of funds	(804)	(2,452)
	(792)	1,244
Transfer to other revenues	-	(363)
Unrealized gains on portfolio investment	3,411	3,551
Unrealized losses on derivatives	-	(15)
Reclassified to statement of operations - portfolio	(37)	(250)
Reclassified to statement of operations - derivatives	15	(40)
Balance at end of period	$ 30,318	$ 27,721

The unrealized gains and losses on portfolio investment and derivatives are related to the change in fair value of those assets from the previous period.

6. ACCUMULATED SURPLUS

(in thousands of dollars)	Year-to-date September 30, 2013		Year-end March 31, 2013	
Accumulated surplus from operations				
Endowment - Original contribution		$ 50,000		$ 50,000
Endowment principal - Externally restricted contributions		37,569		37,569
Reserve for excess investment income				
Balance at beginning of the period	123,445		118,445	
Appropriated from the accumulated surplus during the period	-		5,000	
Balance at end of the period		123,445		123,445
Surplus				
Balance at beginning of the period	26,983		25,992	
Appropriated to the reserve for excess investment income during the period	-		(5,000)	
(Deficit) Surplus for the period	(12,532)		5,991	
Balance at end of the period		14,451		26,983
Total accumulated surplus from operations		225,465		237,997
Accumulated remeasurement gains (losses)				
Balance at beginning of the period	8,895		(145)	
Change in fair value	9,354		9,040	
Balance at end of the period		18,249		8,895
Balance of accumulated surplus at end of period		$ 243,714		$ 246,892

7. NET INVESTMENT INCOME

(in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2013	2012	2013	2012
Gains (losses) from disposal of portfolio investments	$ -	$ -	$ 149	$ (82)
Income transferred from deferred revenues -				
Externally restricted contributions (Note 5)	229	(230)	792	638
Net gains (losses) on derivatives	-	1,382	(300)	1,155
Interest and dividend income	311	384	1,012	781
Investment portfolio management costs	(339)	(289)	(703)	(636)
	$ 201	$ 1,247	$ 950	$ 1,856

8. NET ART BANK INCOME (LOSS)

(in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2013	2012	2013	2012
Rental revenue	$ 379	$ 366	$ 776	$ 749
Other income	39	31	82	75
Artwork purchases	-	(8)	-	(8)
Administration expense	(398)	(422)	(849)	(841)
Amortization of other capital assets	(4)	(7)	(9)	(14)
	$ 16	$ (40)	$ -	$ (39)

9. CANADIAN COMMISSION FOR UNESCO

(in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2013	2012	2013	2012
Program expenses	$ 54	$ 83	$ 344	$ 289
Program - contributions received	-	(1)	-	(1)
Administration expense	387	310	759	620
	$ 441	$ 392	$ 1,103	$ 908

10. NET CHANGE IN OTHER NON CASH ITEMS

(in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2013	2012	2013	2012
(Increase) Decrease in accounts receivable	$ (49)	$ 68	$ 1,913	$ 1,580
Increase (Decrease) in grants payable	6,771	(26,816)	30,520	26,237
Decrease in accounts payable and accrued liabilities	(600)	(965)	(1,918)	(2,074)
Increase (Decrease) in deferred revenues	(231)	12	(234)	(69)
Increase in deferred Parliamentary appropriations	14,000	-	14,000	-
Net change	$ 19,891	$ (27,701)	$ 44,281	$ 25,674

11. RELATED PARTY TRANSACTIONS

The Council is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Council enters into transactions with related parties in the normal course of business on normal trade terms applicable to all individuals and enterprises, and these transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.